



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0107
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<b>Title:</b>	Revise defined contribution plan funding laws
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<b>Primary Sponsor:</b>	Cook, Rob
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<b>Status:</b>	As Amended in Senate Committee
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**Retirement Systems Affected:** ☐ Teachers ☒ Public Employees ☐ Highway Patrol ☐ Police  
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?  
☒ Has the cost of this legislation been calculated by the system's actuary?  
☐ Does this legislation include full funding for any benefit revisions?

PERS	July 1, 2014 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$6,177,504,549	\$6,177,504,549	\$0
Present Value of Actuarial Assets	\$4,595,805,330	\$4,595,805,330	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$1,581,699,219	\$1,581,699,219	\$0
Less: PCR-UAL	\$5,903,188	\$5,903,188	\$0
Net Unfunded Liability	\$1,575,796,031	\$1,575,796,031	\$0
Amortization Period (years) of UAAL	29.30	29.30	0.00
Change in normal costs	11.63%	11.63%	0.00%

\*

\* Changes would only be realized in future years

PERS-DC Disability	July 1, 2013 Current System	July 1, 2014 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$2,715,033	\$2,715,033	\$0
Present Value of Actuarial Assets	\$2,184,488	\$2,184,488	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$530,545	\$530,545	\$0
Amortization Period (years) of UAAL	DNA	0.00	0.00
Change in normal costs	0.33%	0.33%	0.00%

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\*Changes would only be realized in future years

PERS	FY 2015 July 1, 2014	FY 2016 July 1, 2015	FY 2017 July 1, 2016	FY 2018 July 1, 2017	FY 2019 July 1, 2018
Employee Contribution Rate	7.90%	7.90%	7.90%	7.90%	7.90%
State & Univ. Contribution Rate	8.27%	8.37%	8.47%	8.57%	8.67%
State Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%
Local Gov Contribution Rate	8.17%	8.27%	8.37%	8.47%	8.57%
State Contribution Rate	0.10%	0.10%	0.10%	0.10%	0.10%
State Contribution Rate	7.90%	8.00%	8.10%	8.20%	8.30%
State Contribution Rate	0.37%	0.37%	0.37%	0.37%	0.37%
TOTAL Contribution Rate	16.17%	16.27%	16.37%	16.47%	16.57%

## FISCAL SUMMARY

	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>	FY 2018 <u>Difference</u>	FY 2019 <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

**Description of fiscal impact:** Under current law, a contribution equal to 1% of the compensation of members of PERS-DC and MUS-RP is made to PERS-DB for purposes of reducing the unfunded actuarial liability (UAL). These contributions to PERS-DB are temporary and will no longer be paid to PERS-DB when the elimination of these and other temporary contributions would result in an amortization period of the UAL of less than 25 years. Under HB107, as amended, as of July 1, 2015, the 1% contribution moves from being used for a general reduction of PERS UAL, to being used for a reduction of the Plan Choice Rate Unfunded Actuarial Liability (PCR-UAL). Also, if the PCR-UAL is paid off, these contributions would be made instead to members' accounts after the first full pay period following the Board's verification that the PCR-UAL is paid off.

Under current law the total contributions going to the PCR-UAL are 2.37% of PERS-DC and MUS-RP compensation, plus temporary contributions of 0.27% of such compensation, which is to be increased by 0.1% of compensation each year starting at July 1, 2014 (until a total additional increase of 1.27% is reached). These contributions are temporary and will no longer be paid to PERS-DB when the elimination of these and other temporary contributions would result in an amortization period of the UAL of less than 25 years. If the PCR-UAL is paid off prior to cessation of the temporary contributions, then these temporary contributions would be made to PERS-DC Disability. Under HB107, as amended, after June 30, 2015, after the first full pay period following the Board's verification that the PCR-UAL is paid off, these temporary contributions would be made instead to members' accounts.

## FISCAL ANALYSIS

### Assumptions:

1. The calculations are based upon the data, actuarial methods and assumptions as were used in the actuarial valuation as of June 30, 2014.
2. The actual results are dependent upon future experience conforming to the assumptions.
3. The number of active plan members will remain constant from the June 30, 2014 actuarial valuation.
4. Total payroll increased by 4%.
5. Plan assets will earn 7.75%.
6. The fiscal impact assumes this bill is the only amendment being considered. If other changes are also adopted, the fiscal impact associated with this bill could be different.
7. Contributions to pay off the PCR-UAL are made at a rate of 2.74% of PERS-DC and MUS-RP active member compensation for the fiscal year beginning July 1, 2014.
8. This rate will increase to 2.84% for the year beginning July 1, 2015 under statute.
9. Projections from the June 30, 2014 actuarial valuation indicate that the PCR-UAL will become zero just prior to the June 30, 2016 fiscal year end.
10. Under HB107, as amended, these contributions would be allocated to members' accounts beginning after the first full pay period following the Board's verification that the PCR is paid off.
11. These contributions toward the PERS-UAL would have a very minimal effect on future PERS funded ratios and amortization periods (ie. less than 0.1% and 0.1 years, respectively).
12. Regarding the PERS-DC Disability, this plan would no longer receive the temporary contributions.
13. The estimated amount of contributions no longer directed to the PERS-DC Disability as a result of HB107 will be a little over \$2 million.
14. The last valuation of the PERS-DC Disability on June 30, 2013 reported the unfunded actuarial liability at approximately \$530,000. An updated projection of the PERS-DC Disability was not performed.
15. With the additional contribution of 1% of PERS-DC and MUS-RP compensation, the PCR-UAL would become zero prior to the end of June 30, 2016, at which time HB107 provides that all such contributions to the PCR-UAL would be discontinued and instead be contributed to the member accounts.
16. Regarding the total UAL of PERS-DB, over the next 15 years, with the redirection of the 1% of compensation contributions are expected to:
  - a. Result in a decrease in the funded ratio of about 0.1%; and
  - b. Result in an increase in the amortization period of less than a third of a year.
  - c. These estimates assume the temporary contributions to PERS-DB would cease at January 1, 2019 in accordance with the estimates made with the June 30, 2014 actuarial valuation.

### Technical Notes:

1. HB 107, as amended, further amends 19-21-214, MCA, to be consistent with SB 42, as amended.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*